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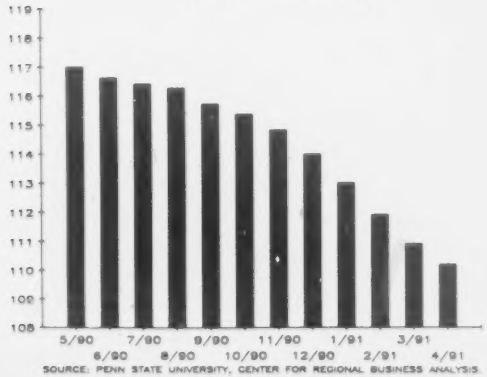
THE RECOVERY DEBATE HEATS UP IN PENNSYLVANIA

With evidence of an ensuing recovery in the national economy beginning to mount, the debate about the expansion's impacts in the Commonwealth will soon take center-stage. It is quite likely that the Pennsylvania economy remained in the grips of the national recession during the springtime months. The Index of Coincidental Indicators declined for 11 consecutive months through April (chart). Indeed, several individual indicators have yet to show any signs of recovery. Growth in resident employment, unemployment, nonfarm jobs, construction contracts, and the PICI has deteriorated over the course of 1991 (table). However, growth in a few other indicators — retail sales, factory output, and housing permit authorizations — has shown signs of improving as the year progresses. In a nutshell, **as is the case every time the economy stands near a turning point, there is ample evidence to support a hodge-podge of views concerning the economy's true health.**

Likewise, there are conflicting signals concerning the State's relative performance over the course of this recession. **First quarter nonfarm job growth in Pennsylvania (job levels were unchanged from a year ago) came in well below all regions except our neighbors in the Mideast and in New England** (table). All regions to the south and to the west realized stronger job growth. Only 14 states, plus the District of Columbia, turned in weaker gains. On the other hand, trends in the Coincidental Index tell a slightly different story. The PICI represents a composite consisting of three Pennsylvania indicators and the U.S. coincidental index. **Since the U.S. economy peaked in July of last year, the PICI has actually been outperformed by an alternative measure which excludes the U.S. component (chart). This suggests that the U.S. coincidental index has acted as an "anchor," holding back growth in the PICI.** At the same time, as reported in last month's *Survey*, year-over-year growth in the Pennsylvania Coincidential Index has come in slightly below that for its U.S. counterpart. Again, it is apparent that there is considerable evidence to support numerous views of the economy's actual performance.

PENNSYLVANIA INDEX OF COINCIDENTAL INDICATORS
(Dec. 1978=100)



SOURCE: PENN STATE UNIVERSITY, CENTER FOR REGIONAL BUSINESS ANALYSIS

Employment and unemployment trends continue to worsen in Pennsylvania. **At a seasonally adjusted 7.7 percent, May's jobless rate was its highest in five years.** The number of residents officially listed among the employed, at 5,491,000 (not seasonally adjusted), was down by 113,000 from the previous May. If current trends continue, 1991 will result in the lowest employment total since 1988. Some improvement, however, is apparent in June employment/unemploy-

Growth in Selected Economic Indicators (percent change from year-ago month)

	Jan.	Feb.	March	April	May
Deteriorating growth					
Resident employment	-1.8	-1.4	-4.3	-1.0	-2.0
No. unemployed	19.3	18.8	38.6	27.8	56.8
Nonfarm jobs	0.3	0.0	-0.5	-0.5	-0.9
Construction contracts	1.5	3.8	-14.3	-0.9	-32.8
Coincidental index	-3.5	-4.7	-5.6	-5.6	n.a.
Improving growth					
Retail sales	-7.1	-7.4	-4.1	-3.2	n.a.
Manufacturing output	-4.3	-5.0	-6.1	-2.8	-2.9
Housing permits	-32.1	-26.9	-11.1	0.9	-11.7

Source: U.S. Depts. of Labor and Commerce; PA Dept. of L & I; F. W. Dodge; PSU, Ctr. for Reg. Bus. Analysis.

1991:IQ nonfarm job growth

	Jobs (thousands)	Pct. chg. from 1990:IQ
Pennsylvania	5,112	0.0
Mideast (ex. PA)	44,187	-1.3
New England	18,401	-3.4
Great Lakes	55,822	0.3
Plains	23,914	1.0
Southeast	75,551	0.7
Southwest	31,079	2.0
Rocky Mountain	9,415	3.4
Far West	50,480	1.2

Source: U.S. Dept. of Labor;
PSU, Ctr. for Reg. Bus. Analysis.

ment trends, the first piece of data available for that month.

On a brighter note, one of the themes acting as a "common denominator" among recent issues of the *PBS* has been that economic growth has been more evenly distributed across the Commonwealth in recent months. Unemployment rate trends provide additional evidence that this is, indeed, the case. Specifically, since it peaked in 1987, the "coefficient of variation" among Pennsylvania's 67 counties (with respect to unemployment rates) has declined considerably (chart). The coefficient of variation is calculated by dividing the standard deviation, a measure of the spread of the 67 jobless rates, by the mean of the 67 observations. Hence, the higher the coefficient, the larger is the dispersion of the data, expressed as a percentage of the average jobless rate. **During the first several years of the 1980s, the coefficient of variation increased as there was a relatively large dispersion of jobless rates, with most of the lower rates found in the east, especially the southeast. As the west narrowed the gap in the final years of the decade and into the 1990s, resulting in a more uniform spread of unemployment rates, the coefficient declined.**

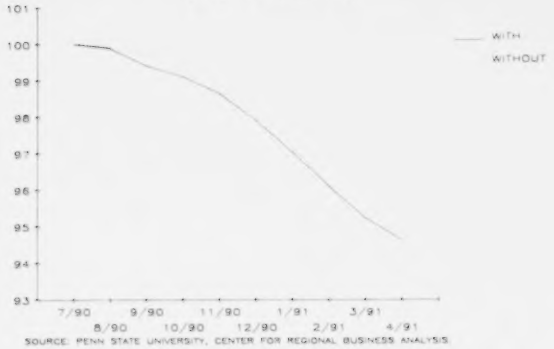
Factory job trends remain worrisome. The downtrend in jobs, which began in 1989, shows no signs of reversing. May's job total of 970,000 was down nearly 50,000 from a year ago. **Although up slightly from April, the average factory workweek, a leading indicator of manufacturing hiring trends, remains well below year-ago readings.** May's minimal monthly gain is not likely the start of an upward trend. However, the all-important production trends are beginning to look up. **The Pennsylvania Manufacturing**

Economic Activity in Pennsylvania	UNADJUSTED DATA 1991 Apr.	UNADJUSTED DATA 1991 May	UNADJUSTED DATA 1990 May	SEASONALLY ADJUSTED DATA 1991 Apr.	SEASONALLY ADJUSTED DATA 1991 May	SEASONALLY ADJUSTED DATA 1990 May	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1991 Apr.	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1991 May	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1990 May
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	5,139*	5,156	5,203	5,145*	5,133	5,184	112.7	112.4	113.5
Service Producing									
No. of wage and salary jobs (thous.)	3,927*	3,931	3,923	3,922*	3,915	3,907	131.1	130.9	130.6
Transportation and public utilities	267*	269	267	267*	268	265	102.1*	102.3	101.4
Wholesale trade	273	274	277	273	274	277	123.2	123.4	124.9
Retail trade	894*	898	900	903	901	903	125.9	125.6	125.9
Finance, insurance & real estate	299*	301	300	301	301	300	138.2*	138.3	137.9
Service & miscellaneous	1,477	1,479	1,450	1,474	1,474	1,445	170.9	170.9	167.6
Federal government	136	136	153	134	134	152	104.6	104.4	118.4
State & local government	582	575	576	569	566	567	97.6	97.2	97.3
Goods Producing									
No. of wage and salary jobs (thous.)	1,211*	1,219	1,278	1,224	1,218	1,277	77.7*	77.4	81.1
Construction	213	223	232	220*	221	230	119.8*	120.1	125.1
Mining	26	27	28	26	27	28	55.0	55.2	57.7
Manufacturing	972	970	1,019	976*	971	1,019	72.7*	72.4	75.9
Durable goods	544	543	578	545	543	577	67.3	67.0	71.2
Nondurable goods	428*	427	441	431*	429	443	80.9*	80.6	83.2
Ave. wkly. hrs. worked by prod. workers	39.9	40.1	40.7	40.2	40.3	40.9	101.8	102.0	103.5
Total wkly. person-hours worked (mils.)	26.4*	26.5	28.6	26.8	26.7	28.8	69.7*	69.5	74.9
Total wkly. payroll (mil. dols.)	299.5	301.6	313.9	303.4	304.0	316.3	135.1*	135.3	140.8
Average hourly earnings (dollars)	11.38	11.33	10.98	11.38	11.35	11.00	194.5*	194.1	188.0
Average weekly earnings (dollars)	452.07	456.34	446.89	456.64	459.56	449.88	197.4*	198.7	194.5
Steel production (thous. tons)	779	803	1,067	n.a.	n.a.	n.a.	32.2	34.1	45.1
Industrial electric power sales (mil. kwh)	3,648	3,735	3,751	3,734	3,823	3,816	101.1	103.5	103.3
Mining									
Anthracite coal (thous. net tons)	221	216	272	238	222	277	48.7	45.4	56.6
Bituminous coal (thous. net tons)	5,641	5,524	6,235	5,706	5,459	6,022	80.9	77.4	85.4
Construction contracts awarded (mil. dols.)									
Total	887.6	734.7	1,092.6*	834.7	668.0	976.1*	259.4	207.6	303.4*
Residential building	315.9	293.4	368.6*	270.2	241.1	294.3*	192.0	171.3	209.1*
Nonresidential building	314.5	278.2	313.5*	339.7	289.0	321.8*	313.1	266.4	296.6*
Nonbuilding (utilities and public works)	257.2	163.1	410.5*	224.8	137.9	360.0*	310.2	190.3	496.6*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,507	5,491	5,604	5,539	5,511	5,624	115.3	114.7	117.0
Unemployed									
No. of persons (thous.)	404	447	285	423	458	297	105.6	114.3	74.0
Rate (percentage of labor force)	6.8	7.5	4.8						
Rate, seasonally adjusted				7.1	7.7	5.0			
Civilian labor force, no. of persons (thous.)	5,911	5,938	5,889	5,963	5,969	5,921	114.5	114.7	113.7
Initial claims for unemployment benefits	115,010	102,710	84,675	118,977	120,586	99,019	83.1	84.2	69.2

Consumer Prices, all items	Urban Indexes (1982-84 = 100) 1991 Apr.	1991 May	1990 May	Percentage Change Month Ago	Year Ago
U.S. city average	135.2	135.6	129.2	0.3	5.0
Philadelphia	140.8	141.3	134.6	0.4	5.0
Pittsburgh	130.3	n.a.	124.9†	n.a.	4.3

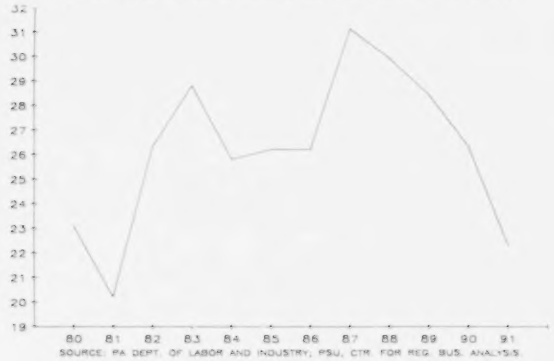
[1] Total includes workers on strike. * = figure revised † figure for April 1990 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

THE PICI: WITH AND WITHOUT THE U.S. COINCIDENTAL INDEX
(July 1990=100)



SOURCE: PENN STATE UNIVERSITY, CENTER FOR REGIONAL BUSINESS ANALYSIS.

UNEMPLOYMENT RATE COEFFICIENT OF VARIATION: PENNSYLVANIA COUNTIES
(standard deviation as a percent of mean)



SOURCE: PA DEPT. OF LABOR AND INDUSTRY, PSU, CTR. FOR REG. BUS. ANALYSIS.

New Pennsylvania building permit authorizations (percent change from year ago)

	May	Pct. chg.	Year-to-date	Pct. chg.
Residential	3,510	−11.7	14,026	−15.0
Nonresidential	2,467	4.0	7,422	− 5.7

Source: U.S. Dept. of Commerce, Bureau of the Census.

Activity Index increased in both April and May and in three of the past five months. As outlined above, year-over-year declines in the PMAI are becoming less pronounced.

Most indicators of building-related activity continue to point to sluggish trends in this sector of the economy. Still, the rate of decline is probably not nearly as pronounced as in 1990 and early 1991. May brought with it a 12 percent decline from a year ago in the number of new housing units authorized by permit. On the nonresidential side, there was a welcome 4 percent gain. Still, year-over-year trends continue to point down. May was also a weak month with respect to the value of new construction contract awards. On the bright side, construction job levels rose after seasonal adjustment for the first time since January, albeit by a minimal 500 relative to April readings. At the same time, job readings remain about 9,000 below a year ago.

Within the service producing sector, **retail activity remains soft, though the decline in retail sales has been easing a bit of late.** April resulted in a 3.2 percent decline in sales, the smallest decline so far this year. Retail jobs are struggling to hold their own. Job levels have been in a holding pattern since the beginning of 1990. As of May, job totals, at 898,000, were down by 2,000 from a year ago.

Pennsylvania retail sales (millions of dollars; pct. chg. from year ago)

	April	Pct. chg.	Year-to-date	Pct. chg.
Total	6,496	− 3.2	24,311	− 5.3
Durables	2,168	−10.2	7,662	−16.4
Bldg. mat.	260	− 3.3	779	−15.5
Auto dlrs.	1,348	− 7.6	4,655	−14.1
Furniture	261	−11.8	996	−21.6
Other	299	−23.5	1,232	−20.9
Nondurables	4,328	0.8	16,649	0.8
Gen. mdse.	695	− 2.3	2,355	− 2.4
Food/grocery	1,390	4.2	5,599	4.8
Gas	422	7.1	1,616	3.4
Apparel	357	3.8	1,257	2.9
Eat/drink	712	−11.8	2,626	−13.4
Drugs	280	7.7	1,139	9.0
Other	472	6.1	2,057	8.5

Seas. adj. total: April 6,431
March 6,640

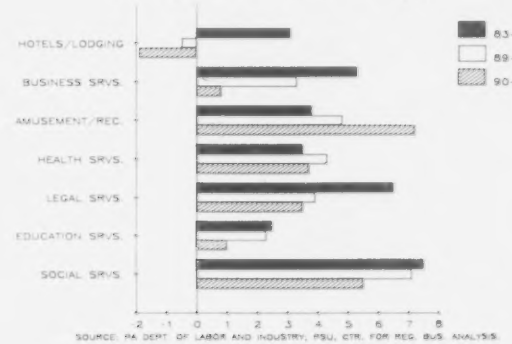
Source: Tot./Dur./Nondur.-U.S. Dept. of Commerce, Bur. of the Census.
Seas. adj. total-PSU, Ctr. for Reg. Bus. Analysis.
Data in the sub-categories of the durable and nondurable groups are subject to relatively large sampling variability.

New Pennsylvania motor vehicle registrations (percent change from year ago)

	Total registrations	Pct. change
April	40,472	−22.4
1991 YTD	162,209	−19.6
12-month total	572,948	−11.8

Source: R.L. Polk & Co.

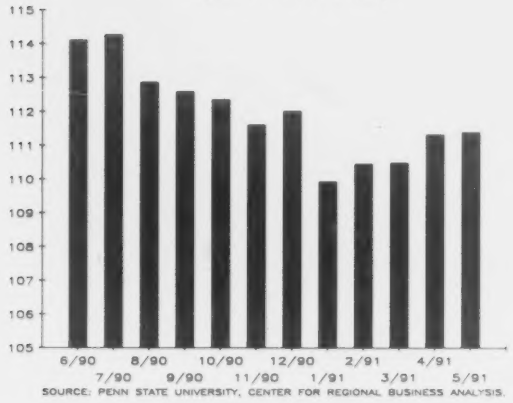
HISTORICAL TRENDS IN SERVICE INDUSTRY JOB GROWTH
(average annual percent change)



SOURCE: PA DEPT. OF LABOR AND INDUSTRY, PSU, CTR. FOR REG. BUS. ANALYSIS.

Practically all new jobs currently being generated in the economy are traceable to the service industries. In May, job levels in these industries were up by 29,000 from a year ago. Still, signs of a slowdown are evident in several industries within the broad service sector. For instance, growth so far in 1991 is down from 1990 growth and 1983-1989 growth in five of the seven service industry categories (chart). The exceptions are the amusement/recreation and health services industries.

PENNSYLVANIA INDEX OF LEADING INDICATORS
(Dec. 1978=100)



SOURCE: PENN STATE UNIVERSITY, CENTER FOR REGIONAL BUSINESS ANALYSIS.

As an aside, caution should be exercised in interpreting job trends in the public sector. Pennsylvania was home to 136,000 federal government jobs in May, down 17,000 over the year. However, 1990 readings were inflated due to the temporary hirings of thousands of workers needed to conduct the decennial census. (Even with the public sector excluded, the deteriorating growth performance in nonfarm jobs during the first five months of 1991 noted above still holds.)

All things considered, "cautious optimism" is perhaps the best way to characterize short-term economic expectations in Pennsylvania. The Pennsylvania Index of Leading Indicators, perhaps the best summary measure of future expectations, has been trending upward since February (chart). The worst of this recession is surely behind us. The question now revolves around the strength of the recovery. As always, the situation nationally will determine Pennsylvania's short-term performance. The consensus, with respect to the national economy, calls for a mediocre recovery in the months ahead. Problems in the real estate sector, heavy debt loads, and weak public finances (at the national, state, and local levels) will limit the strength of the rebound. The economics community, however, has been known to underestimate the strength of past rebounds. A best-case scenario suggests that the upcoming recovery will mirror those following previous recessions. The worst-case scenario involves a "double-dip" — two recessions sandwiched around a short recovery. Clearly, the consensus falls somewhere between these two extremes.

— William D. Anderson

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Division of Research
The Smeal College of Business Administration
The Pennsylvania State University
University Park, PA 16802

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